

Table 17: Company Valuation & Target Prices

Company	Price (6/17)	Shares	Mkt Value of Equity	Total Debt	Cash	Enterprise Value	Discount Rate	Term. EBITDA Multiple	1/1/99 PMV	% Upside	1/1/00 PMV	% Upside	Target Price	% Upside
ELI	\$13.13	51.7	678.8	60.0	47.6	691.2	15%	10.0	\$20.00	52%	\$28.00	113%	\$20.00	52%
espire	\$17.38	54.8	952.4	493.0	410.0	1,035.4	15%	9.5	\$25.00	44%	\$30.00	73%	\$28.00	61%
ICG	\$31.75	44.3	1,406.5	957.5	217.0	2,147.0	15%	9.0	\$42.00	32%	\$56.00	76%	\$42.00	32%
Intermedia	\$38.75	33.4	1,294.3	1,224.0	756.9	1,761.4	RSTR	RSTR	RSTR	RSTR	RSTR	RSTR	RSTR	RSTR
RCN	\$20.38	55.5	1,131.1	685.0	775.0	1,041.1	RSTR	RSTR	RSTR	RSTR	RSTR	RSTR	RSTR	RSTR
Teleport	\$58.44	181.0	10,577.6	1,424.0	173.3	11,828.3	RSTR	RSTR	RSTR	RSTR	RSTR	RSTR	RSTR	RSTR
Teligent	\$28.00	53.6	1,500.8	300.0	424.9	1,375.9	15%	9.0	\$37.00	32%	\$52.00	86%	\$37.00	32%
USN	\$8.25	30.1	248.3	172.2	87.5	333.0	15%	9.0	\$18.00	118%	NA	NA	\$18.00	118%

Source: Merrill Lynch estimates

Additional Valuation Metrics

Investors utilize a variety of techniques to value the CLEC group. While our valuation work relies heavily on 10-year discounted cash flow analysis, we look at other parameters in determining our opinion on the stocks. These other valuation benchmarks include multiples of enterprise value (EV) to:

- Gross property, plant & equipment (PP&E);
- Revenues

■ Gross PP&E

*CLECs Currently Trade At EV
To Gross PP&E Multiples Of
2.4x For 1998 & 1.9x For 1999*

As a growing base of local assets is one of the key value drivers for the CLEC group, the comparison of EV to gross PP&E multiples can prove useful. CLECs which are predominately facilities based have invested significant capital in the buildout of facilities. This should be reflected in lower gross PP&E multiples compared to other CLECs more reliant on UNEs and TSRs. For example, ICG which provides 48% of services via on-net facilities currently trades at a 1.9x multiple to 1998E gross PP&E vs. WinStar which provides only 15% of services via on-net facilities and currently trades at a 3.5x multiple. However, it is important to note that other variables such as takeover speculation, Street concerns, or financing activities may be influencing the enterprise value of companies near term. These influences may, therefore, cause the multiple to deviate from fundamentally based levels. In our analysis, we do not include either USN or McLeod as they are both primarily resellers of ILEC facilities and employ a business strategy that does not require a high level of capital expenditure which skews the observed PP&E multiple and is not reflective of their fundamental valuation. Charts 14 and 15 below, detail the current gross PP&E multiples currently accorded the CLECs.

Chart 14: CLEC Valuation: 1998E Gross PP&E Multiples (6/17/98)

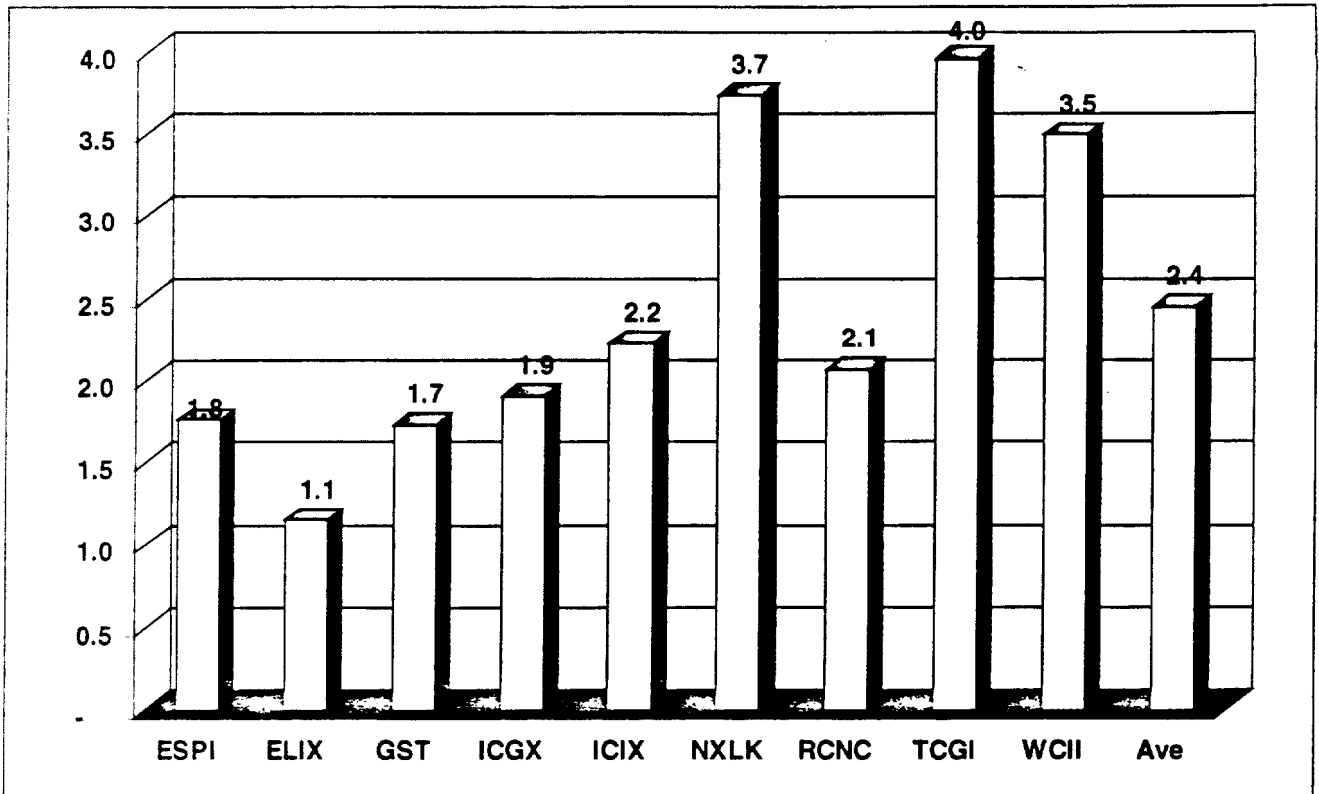
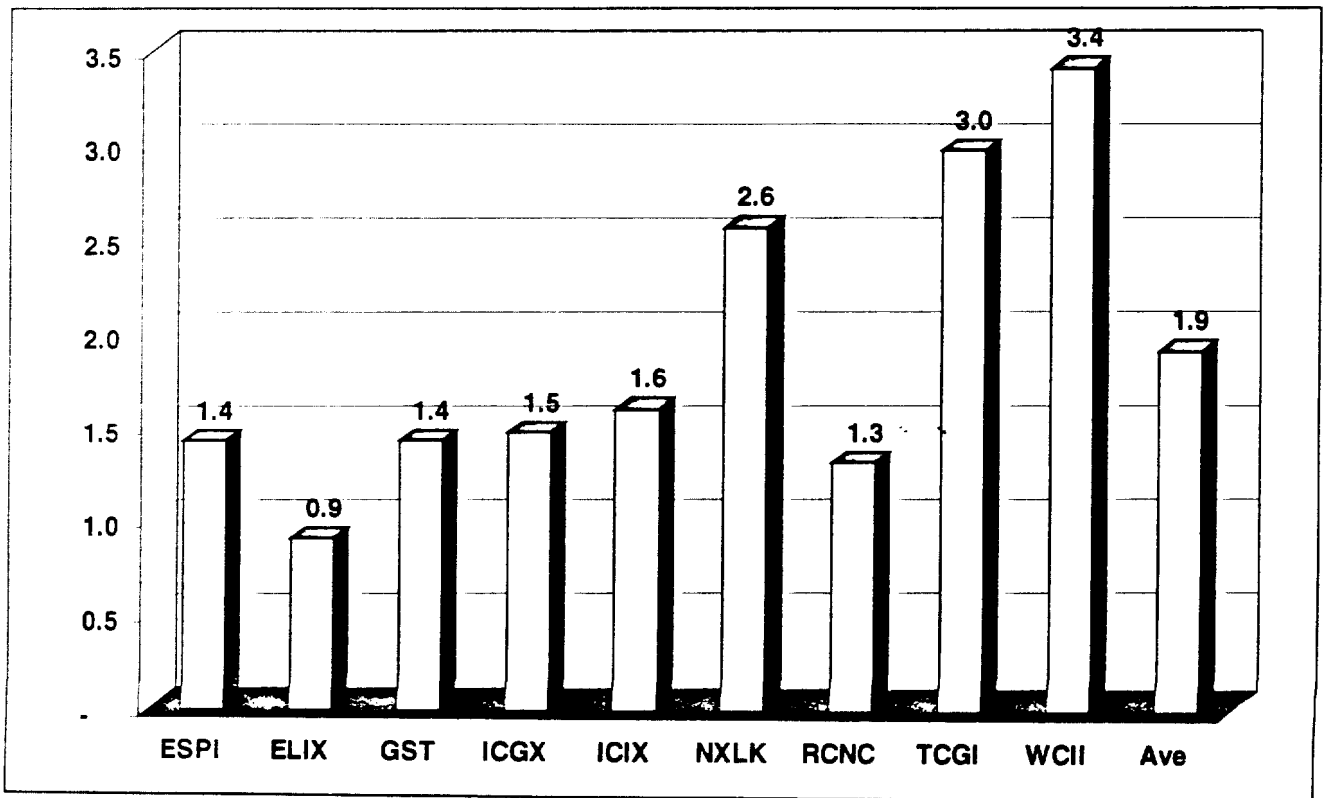


Chart 15: CLEC Valuation: 1999E Gross PP&E Multiples (6/17/98)



■ Revenue

*CLECs Currently Trade At EV
To Revenue Multiples Of 7.1x
For 1998 & 4.6x For 1999*

Due to the relatively nascent stage of the CLEC group and the wide variation of revenue mix (i.e., local switched services vs. long distance) within the group, there is a wide range in the revenue multiples. For instance, WinStar and McLeod, with only an estimated 35% and 33%, respectively of revenue coming from core CLEC switched local service, trade at much higher multiples than CLECs such as Electric Lightwave and e.spire whose revenue is derived predominately from local services (65% and 70%, respectively).

As with gross PP&E multiples, takeover speculation and other non-fundamental influences can impact the enterprise value of a company and skew the multiples. We believe this may be the case with WinStar, as recent takeover speculation involving British Telecom has increased its share price by over 15% in the past 2 weeks. Prior to the takeover speculation, WinStar was trading at a 6.6x multiple to 1998E revenue vs. the current 7.6x multiple

Chart 16: CLEC Valuation: 1998E Revenue Multiples (6/17/98)

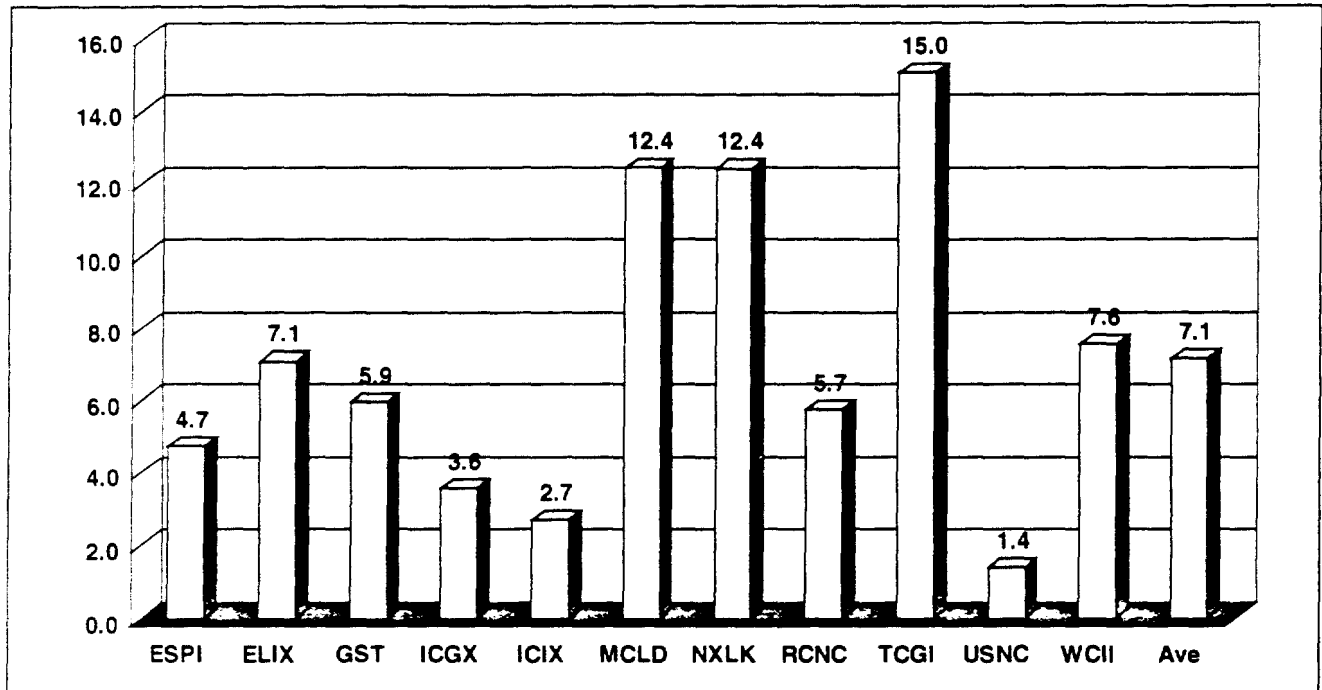
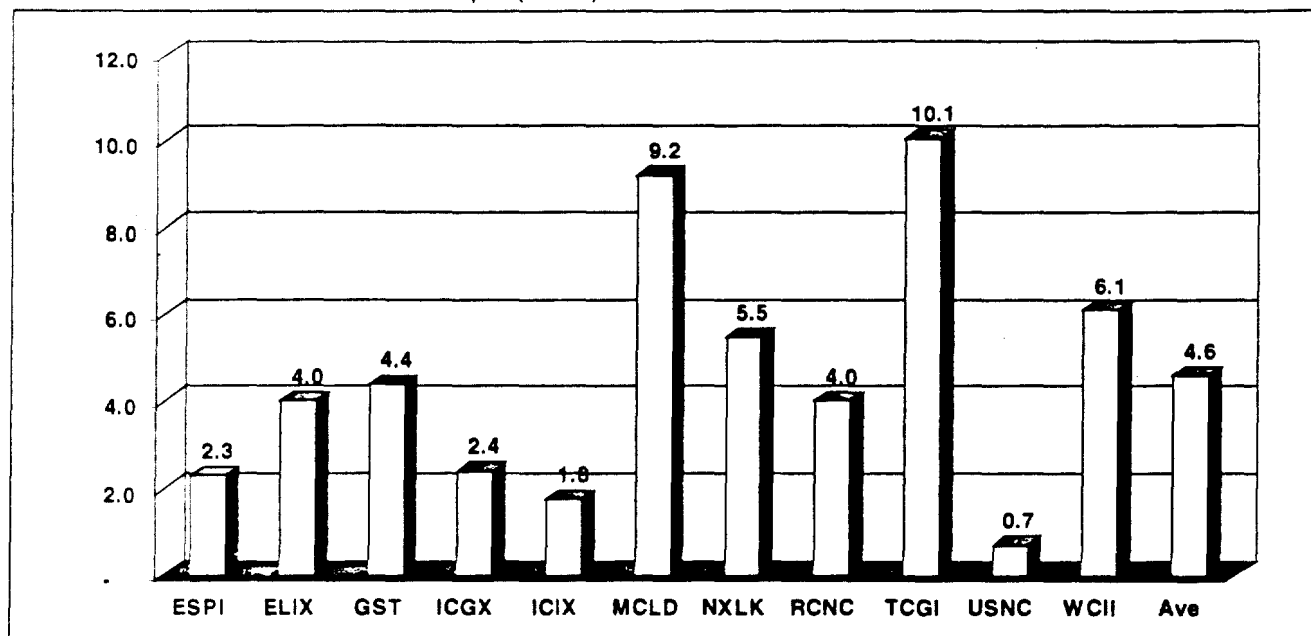


Chart 17: CLEC Valuation: 1999E Revenue Multiples (6/17/98)



■ Takeover Multiples

As shown in Tables 18 and 19 below, CLECs in our coverage universe are currently trading at a sharp discount relative to the takeout multiples obtained by MFS Communications and Brooks Fiber and Teleport. Further, our private market price objectives translate into enterprise value to 1998E gross PP&E multiples in the 1.7-2.7x range (see table 19) and enterprise value to 1998E revenues of 4.4-10.6x.

Table 18: Multiples Paid For Acquired CLECs

	Gross PP&E		Revenue	
	1998E	1999E	1998E	1999E
MFS	2.3x	1.8x	4.1x	3.1x
Brooks	3.8	2.8	10.2	6.9
Teleport*	4.0	3.0	15.1	10.1

*As of 6/17, deal estimated to close by end of June.

Source: Merrill Lynch estimates

Table 19: Estimated Takeout Multiples Implied By Our Price Objectives*

	Price Objective**	Enterprise Value +			
		Revenue		Gross PP&E	
		1998E	1999E	1998E	1999E
e.spire	\$28	7.3	3.5	2.7	2.2
Electric Lightwave	\$20	10.6	5.7	1.7	1.2
ICG	\$42	4.4	2.9	2.3	1.8
Intermedia	RSTR	RSTR	RSTR	RSTR	RSTR
RCN	RSTR	RSTR	RSTR	RSTR	RSTR
Teleport	RSTR	RSTR	RSTR	RSTR	RSTR
USN***	\$18	2.1	1.1	NM	NM

* Enterprise value as of 6/12/98

** Merrill Lynch private market based price objective

***USN gross PP&E multiples are not meaningful due to reseller nature of business plan which requires a low level of capital investment

Source: Merrill Lynch estimates

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7. Quarterly Reviews

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19 May 1998

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Electric Lightwave Inc.

**1Q Results: Strong Core CLEC
Revenue But Lower Access Line Growth**

ACCUMULATE*

Reason for Report: 1Q Results Reported

**Long Term
ACCUMULATE**

Price: \$18
12 Month Price Objective: \$20

Estimates (Dec)	1997A	1998E	1999E
EPS:	d\$0.80	d\$1.65	d\$3.04
P/E:	NM	NM	NM
EPS Change (YoY):		NM	NM
Q1 EPS (Mar):	NM	d\$0.24	
Cash Flow/Share:	NM	d\$2.14	d\$3.95
Price/Cash Flow:	NM	NM	NM
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-2-2-9
Mkt. Value / Shares Outstanding (mn):	\$929.5 / 52
Book Value/Share (-97):	\$5.14
Price/Book Ratio:	3.5x
LT Liability % of Capital:	59.0%
Est. 5 Year EPS Growth:	NA

Stock Data

52-Week Range:	\$23 1/8-\$12 3/8
Symbol / Exchange:	ELIX / OTC
Options:	None
Institutional Ownership-Spectrum:	53.3%

ML Industry Weightings & Ratings**

Strategy: Weighting Rel. to Mkt.:		
Income:	Overweight	(07-Mar-95)
Growth:	Underweight	(07-Mar-95)
Income & Growth:	Overweight	(07-Mar-95)
Capital Appreciation:	Overweight	(16-Jan-96)
Market Analysis: Technical Rating:	Above Average	(24-Dec-96)

*Intermediate term opinion last changed on 06-Feb-98.

**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions, see footnotes.

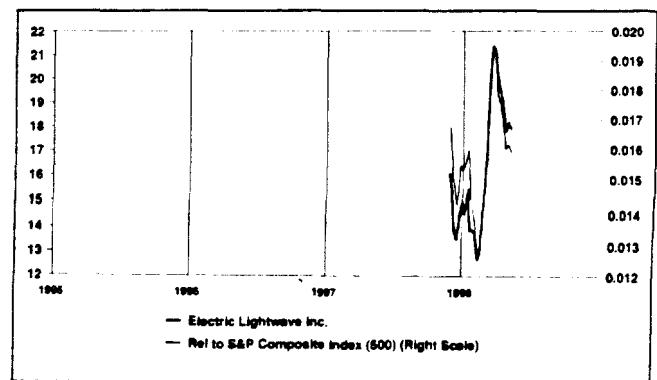
Investment Highlights:

- On May 4, ELI reported 1Q results with revs. & EBITDA in line with our ests. Access line additions were 17% above our ests. but showed a 28% sqt'l decline vs. 4Q97.
- We maintain our 12 month DCF-based price objective of \$20 & our Accumulate opinion.

Fundamental Highlights:

- 1Q corporate rev. was \$20.1MM, in line with our est. of \$20.5MM, up 4% sqt'ly & 91% y/y. Topline growth was driven by local switched rev. of \$6.0MM, 18% above our est., up 36% sqt'ly. However, the growth rate was off-set by dedicated local & LD private line rev. of \$9.1MM, down 11% sqt'ly & 6% below our est. of \$9.7MM & LD rev. of \$1.8MM, down 10% sqt'ly & 28% below our est.
- ELI's 1Q EBITDA loss widened by 96% sqt'ly & 35% y/y to \$9.8MM, in line with our est. of \$10.0MM. W
- We are lowering our full-year revenue forecast by 3% from \$103.3MM to \$100.5MM due to delays in local access line provisioning by USW. We maintain our full-year EBITDA loss est. of \$48.7MM.

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

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RC#20113941

- ELI's 41,270 access lines in service at quarter-end amounted to a gain of 20% sequentially & almost 3 fold y/y. Access line additions fell short of 4Q results with almost 7,000 added during the quarter vs. 9,600 during 4Q but were 17% higher than our estimate of 6,000. ELI attributed the lower access line additions to delays obtaining leased T1 building connections from US West (USW) & expect this will be alleviated near term with the resolution of ELI's antitrust lawsuit against USW.

On May 4, Electric Lightwave (ELI) reported 1Q results with rev. and EBITDA loss in line with our ests. Due to current delays in local line provisioning by USW, we are lowering our full-year 1998 revenue est. However, we look for higher sequential access line additions during the remainder of '98 as local line provisioning capacity in USW territories ramps up.

1Q Highlights

1. Strong Core CLEC Revenue Growth:

Corp. rev. for the quarter was \$20.1MM, in line with our est. of \$20.5MM, up 4% sqt'ly and 91% y/y. Normalized for the loss during 1Q of \$0.8MM of long haul rev. from the expected expiration of a contract with IXC Comm., corp. rev. increased 9% sqt'ly. The solid rev. growth was driven by **local switched rev.** of \$6.0MM, 18% above our est. of \$5.1MM, up 36% sqt'ly and **enhanced data rev.** of \$3.1MM, slightly below our est. of \$3.2MM, up 24% sqt'ly. **Dedicated network access rev.** (local or long haul private line svcs.) was \$9.1MM, 6% below our est. of \$9.7MM, down 11% sqt'ly (a decrease of 4% when normalized for the loss of IXC Comm. revenue). We est. that approx. 70% of network access rev. (\$6.4MM) came from local private line and 30% (\$2.7MM) came from long haul private line. Comprising the smallest rev. component, **LD switched rev.** was \$1.8MM, 28% below our est., a 10% sqt'l decrease. LD switched rev. has two components, wholesale and retail, and the sqt'l decrease was due to a 25% sqt'l decline in the wholesale, lower margin portion (approx. 60% of the total or \$1.2MM of 4Q97 revs.) which more than offsets a 7% sqt'l increase in retail switched LD rev. (approx. 40% of the total or \$0.8MM of 4Q97 revs.).

We are lowering our total corp. rev. forecast of \$103.3MM for full-year '98 by 3% to \$100.5MM due to the delays in local line provisioning by USW and are reallocating divisional revs. to account for the strong growth in local switched svcs. and a more conservative view towards growth in switched LD and private line svcs.

Table 1: 1998E Revised Rev. Allocation Forecast

(\$ in millions)	Prior	Revised	% Change
Local Switched	25.3	31.6	24%
Long Distance Switched	13.9	9.4	-32%
Data	18.0	18.0	--
Network Access			
Local	32.2	29.0	-10%
Long Haul	<u>13.8</u>	<u>12.4</u>	-10%
Total Network Access	46.0	41.5	-10%
Total Revenue	103.3	100.5	-3%

Source: Merrill Lynch estimates

2. Lower Net Local Access Line Growth:

As shown in Table 2 below, net local access line equivalents at the end of 1Q were 41,270, a sqt'l increase of 7,000 or 20%. While net quarterly access line additions were 17% above our est. of 6,000, net line adds declined 28% from the 9,600 access lines added during 4Q97. We attribute this decline to ELI's heavy reliance on T1 connections leased from USW. According to the company, USW has been slow to provision T1's and this has led to a backlog of almost 20,000 access line equivalents at the end of 1Q. Company expects that this issue will be resolved with the settlement of ELI's anti-trust case against USW expected in the next few months.

Table 2: Access line Equivalents

	4Q97A	1Q98A	Seq'l Change
Resold Local Lines	1,136	1,770	56%
CENTREX/On-Net Access Lines	8,000	8,000	0%
ISDN Trunks*	8,809	12,000	36%
T1 Trunks**	<u>16,377</u>	<u>19,500</u>	19%
Access Line Equivalents	34,322	41,270	20%

* Assumes 23 access line equivalents per ISDN trunk

** Assumes 2.5 access line equivalents per T1 trunk

Source: Company reports

3. EBITDA Loss In Line With Expectations:

1Q EBITDA loss was \$9.8MM, in line with our est. of \$10.0MM, a widening of 96% sqt'ly and 35% y/y. We maintain our full-year '98 EBITDA loss est. of \$48.7MM.

Net loss for the quarter (after a one time charge for a change in accounting principals) was \$14.8MM, 13% lower than our est. due to lower interest and dep. & amort. expenses and a \$2.4MM tax benefit.

4. Cap Exp:

At \$34.4MM, cap exp for the quarter was only slightly more than half of our est. of \$60MM. As the company spent 1Q gearing up for network builds during the remaining 3Q's of '98, we are maintaining our full-year '98 est. of \$270MM.

Conclusion:

We maintain our 12 month price objective of \$20 based on our 10-year discounted cash flow (DCF) model. Key assumptions in our analysis include a 15% discount rate, a 10x multiple on terminal year EBITDA, a 7.3% perpetual growth rate of unlevered free cash flow, and a 10% "haircut" to private market value for majority (83%) stock ownership by Citizens Utilities.

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Table 3: Electric Lightwave Detailed Financial Forecast

	4Q97A	1997A	1Q98E	2Q98E	3Q98E	4Q98E	1998E	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E
Revenue																
Local Switched	4.4	10.5	6.0	7.0	8.3	10.4	31.6	69.5	139.0	247.5	391.0	578.6	792.7	1,006.8	1,147.7	1,239.6
LD Switched	2.0	8.1	1.8	2.1	2.5	3.0	9.4	16.0	26.5	42.3	65.6	98.4	137.8	179.2	215.0	258.0
Data	2.5	8.9	3.1	3.7	4.8	6.4	18.0	36.0	68.4	109.5	158.8	206.4	262.1	327.7	403.0	443.3
Network Access																
Local	7.2	23.5	6.4	6.9	7.5	8.2	29.0	43.1	60.6	75.0	90.0	103.5	116.5	129.3	142.2	152.2
Long Haul	3.1	10.1	2.7	2.9	3.2	3.5	12.4	23.2	35.6	50.0	60.0	69.0	77.6	86.2	94.8	101.4
Total Network Access	10.2	33.5	9.2	9.8	10.7	11.8	41.5	66.3	96.2	125.0	150.0	172.5	194.1	215.5	237.0	253.6
Total Revenue	19.2	61.1	20.1	22.6	26.3	31.5	100.5	187.9	330.1	524.3	765.4	1,056.0	1,386.8	1,729.1	2,002.8	2,194.5
Expense																
Network Costs	10.3	29.5	9.2	11.3	13.1	15.6	49.2	75.2	115.5	167.8	229.6	292.3	354.1	407.2	435.1	439.8
Eng. Ops	3.8	15.2	3.9	4.4	5.0	6.0	19.4	35.7	62.7	99.6	145.4	200.6	263.5	328.5	380.5	417.0
Sales & Marketing	4.5	13.9	4.9	5.5	6.4	7.6	24.4	43.2	69.3	107.5	153.1	205.9	270.4	337.2	390.5	427.9
Admin General	4.5	20.2	10.5	11.5	12.7	14.5	49.2	65.4	85.9	115.8	155.9	198.1	225.4	244.7	256.9	279.6
Lease Payment	1.2	5.2	1.3	1.7	2.0	2.0	7.0	10.0	10.0	10.0	10.0	10.0	-	-	-	-
Dep. & Amort	3.6	11.2	3.9	5.4	6.5	7.9	23.6	46.7	66.1	85.8	106.5	120.5	134.5	148.5	162.5	176.5
Interest exp. net	0.7	1.2	0.7	2.6	3.4	4.5	11.2	69.3	117.3	162.3	206.6	246.2	282.8	306.2	311.6	311.6
Taxes	(1.3)	(1.3)	(2.4)	(2.0)	(2.0)	(2.0)	(8.4)	-	-	-	-	-	-	-	-	-
Net Profit (Loss)	(7.9)	(33.9)	(12.0)	(17.8)	(20.8)	(24.6)	(75.1)	(157.6)	(196.8)	(224.4)	(241.7)	(217.5)	(143.9)	(43.2)	65.6	142.1
EPS	\$(0.18)	\$(0.80)	\$(0.24)	\$(0.36)	\$(0.41)	\$(0.49)	\$(1.50)	\$(3.06)	\$(3.71)	\$(4.10)	\$(4.29)	\$(3.75)	\$(2.41)	\$(0.70)	\$1.03	\$2.18
Shares O/S	44.4	42.4	49.7	49.9	50.2	50.4	50.1	51.6	53.1	54.7	56.3	58.0	59.8	61.6	63.4	65.3
EBITDA	(5.0)	(22.9)	(9.8)	(11.8)	(12.9)	(14.2)	(48.7)	(41.6)	(13.4)	23.7	71.4	149.1	273.4	411.5	539.7	630.2
Cap Exp	66.6	127.0	34.7	75.0	85.0	75.0	269.7	250.0	200.0	200.0	175.0	175.0	175.0	175.0	175.0	175.0
Free Cash Flow	NA	(162.8)	(54.4)	(55.1)	(58.2)	(60.8)	(336.5)	(370.9)	(340.7)	(348.6)	(320.2)	(282.0)	(194.3)	(79.7)	43.1	133.6
Net Debt	NA	131	78	NM	NM	NM	450	741	955	1,131	1,235	1,260	1,162	926	561	106
Margins																
Network Expense	47.0%	47.0%	45.9%	50.0%	49.9%	49.5%	49.0%	40.0%	35.0%	32.0%	30.0%	27.7%	25.5%	23.6%	21.7%	20.0%
Eng. Ops	23.0%	23.0%	19.5%	19.3%	19.2%	19.1%	19.3%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%	19.0%
Sales & Marketing	24.0%	24.0%	24.6%	24.3%	24.3%	24.1%	24.3%	23.0%	21.0%	20.5%	20.0%	19.5%	19.5%	19.5%	19.5%	19.5%
Admin General	33.0%	32.0%	52.4%	51.0%	48.2%	46.0%	49.0%	34.8%	26.0%	22.1%	20.4%	18.8%	16.3%	14.2%	12.8%	12.7%
Lease Payment	10.0%	10.0%	6.2%	7.5%	7.6%	6.3%	6.9%	5.3%	3.0%	1.9%	1.3%	0.9%	0.0%	0.0%	0.0%	0.0%
Dep. & Amort	18.5%	18.3%	19.4%	23.9%	24.6%	25.0%	23.5%	24.9%	20.0%	16.4%	13.9%	11.4%	9.7%	8.6%	8.1%	8.0%
Interest exp. net	NA	1.9%	3.7%	11.6%	12.8%	14.2%	11.2%	36.9%	35.5%	31.0%	27.0%	23.3%	20.4%	17.7%	15.6%	14.2%
Pretax Profit (loss)	NA	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-20.6%	-10.4%	-2.5%	3.3%	6.5%
Net Profit (Loss)	NA	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	-20.6%	-10.4%	-2.5%	3.3%	6.5%
EBITDA %	NA	NM	NM	NM	NM	NM	NM	NM	-4.1%	4.5%	9.3%	14.1%	19.7%	23.8%	26.9%	28.7%
Y.Y. Change																
Local Revenues	NA	NA	NA	NA	NA	133.5%	140.0%	120.0%	100.0%	78.0%	58.0%	48.0%	37.0%	27.0%	14.0%	8.0%
LD Revenues	NA	NA	NA	NA	NA	46.7%	71.1%	70.0%	65.0%	60.0%	55.0%	50.0%	40.0%	30.0%	20.0%	20.0%
Data Revenues	NA	NA	NA	NA	NA	153.8%	102.3%	100.0%	90.0%	60.0%	45.0%	30.0%	27.0%	25.0%	23.0%	10.0%
Local Netwk. Access	NA	NA	NA	NA	NA	15.0%	23.6%	48.6%	40.5%	23.8%	20.0%	15.0%	12.5%	11.0%	10.0%	7.0%
LD Network Access	NA	NA	NA	NA	NA	15.0%	23.6%	86.7%	53.3%	40.5%	20.0%	15.0%	12.5%	11.0%	10.0%	7.0%
Total Network Access	NA	NA	NA	NA	NA	15.0%	63.9%	60.0%	45.0%	30.0%	20.0%	15.0%	12.5%	11.0%	10.0%	7.0%
Total Revenue	NA	NA	NA	NA	NA	63.9%	64.5%	87.0%	75.7%	58.8%	46.0%	38.0%	31.3%	24.7%	15.8%	9.6%
Network Costs	NA	NA	NA	NA	NA	52.2%	66.7%	52.6%	53.7%	45.2%	36.9%	27.3%	21.1%	15.0%	6.9%	1.1%
Eng. Ops	NA	NA	NA	NA	NA	58.5%	27.3%	84.4%	75.7%	58.8%	46.0%	38.0%	31.3%	24.7%	15.8%	9.6%
Sales & Marketing	NA	NA	NA	NA	NA	68.8%	75.6%	76.9%	60.4%	55.1%	42.4%	34.5%	31.3%	24.7%	15.8%	9.6%
Admin General	NA	NA	NA	NA	NA	222.4%	144.1%	32.8%	31.4%	34.7%	34.7%	27.0%	13.8%	8.5%	5.0%	8.8%
Dep. & Amort	NA	NA	NA	NA	NA	121.1%	111.7%	97.7%	41.4%	29.8%	24.1%	13.1%	11.6%	10.4%	9.4%	8.6%
Interest exp. net	NA	NA	NA	NA	NA	NM	NM	NM	69.3%	38.4%	27.3%	19.2%	14.9%	8.3%	1.8%	0.0%
Net Profit (Loss)	NA	NA	NA	NA	NA	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
EPS	NA	NA	NA	NA	NA	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM	NM
Shares O/S	NA	NA	NA	NA	NA	13.7%	18.2%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
EBITDA	NA	NA	NA	NA	NA	NM	NM	NM	NM	NM	201.6%	109.0%	83.3%	50.5%	31.2%	16.8%

Source: Merrill Lynch estimates

13 May 1998

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ICG Communications, Inc.

**1Q Rpt'd: Strong CLEC Results But
NETCOM Disappoints; Est's cut**

ACCUMULATE*

Reason for Report: 1Q Results Reported

**Long Term
ACCUMULATE**

Price: \$33 1/4

Estimates (Dec)	1997A	1998E	1999E
EPS:	d\$9.75	d\$6.49	-5.48
P/E:	NM	NM	NM
EPS Change (YoY):		NM	NM
Consensus EPS:		d\$6.55	d\$5.56
(First Call: 28-Apr-98)			
Q1 EPS (Mar):	d\$2.09	d\$1.92	
Cash Flow/Share:	d\$7.99	d\$3.98	d\$1.91
Price/Cash Flow:	NM	NM	NM
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-2-2-9
Mkt. Value / Shares Outstanding (mn):	\$1.120 / 32
Book Value/Share (-97):	-8.88
Price/Book Ratio:	NM

Stock Data

52-Week Range:	\$44 1/4-\$11 3/8
Symbol / Exchange:	ICGX / OTC
Options:	AMEX
Institutional Ownership-Spectrum:	83.6%
Brokers Covering (First Call):	15

ML Industry Weightings & Ratings**

Strategy: Weighting Rel. to Mkt.:		
Income:	Overweight	(07-Mar-95)
Growth:	Underweight	(07-Mar-95)
Income & Growth:	Overweight	(07-Mar-95)
Capital Appreciation:	Overweight	(16-Jan-96)
Market Analysis: Technical Rating:	Above Average	(24-Dec-96)

*Intermediate term opinion last changed on 18-Sep-97.

**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions, see footnotes.

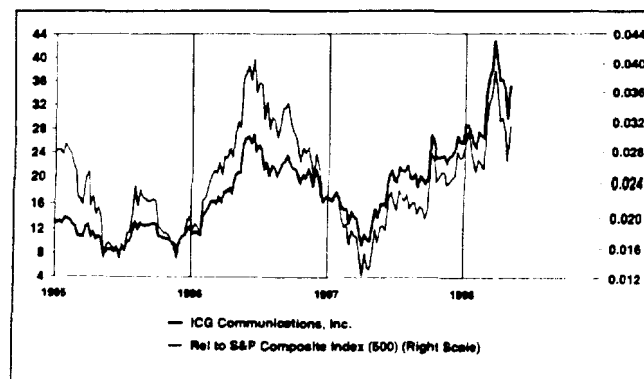
Investment Highlights:

- On May 1, ICG announced 1Q results with strong CLEC revenue & line growth but NETCOM (the ISP subsidiary) results were disappointing.
- Although we lowered estimates, we maintain our \$42 12-month price objective & reiterate our Accumulate opinion as the key value driver — the CLEC div. — continues to demonstrate strong fund. momentum.

Fundamental Highlights:

- 1Q CLEC rev. was \$58.5MM, 8% above our est. of \$54MM, up 23% sqt'ly & 91% y/y. CLEC rev. growth was driven by switched local services rev., up 66% sqt'ly to \$28.2MM & 12% higher than our est. of \$25MM. Total rev. was \$126MM, 4% below our est. of \$131, up 61% sqt'ly & 99% y/y.
- 1Q EBITDA loss was in line with our est. at \$25.7MM, a 10% improvement over 4Q, even accounting for the impact of lower rev. The key to the improvement was SG&A control which improved sqt'ly as a percent of rev. from 49.9% in 4Q to 46%.
- Net local access lines increased 32% sqt'ly to 186,000 from 141,000 at 4Q quarter-end with the number of new lines added growing 6% vs. 4Q.
- We raised our CLEC rev. est. for '98 by 3%, but adopted a more conservative view towards network service & NETCOM (both rev. & EBITDA). Thus, our total corporate rev. est.'s were lowered by 3% for '98 & '99 and our EBITDA est. by 87% for '98 & 6% for '99.

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

435240/435200/435197/435100/435000

RC#20113313

On May 1, ICG Communications (ICG) reported 1Q98 results. Although we were impressed by strong CLEC (competitive local exchange carrier) results — both rev. growth and line adds in the period — NETCOM, ICG's newly acquired ISP (internet service provider) and network services posted disappointing results. As a result, we lowered full year rev. and EBITDA ests. for both '98 & '99. We are, however, reiterating both our Accumulate opinion and \$42.12 month private market value-based price objective (with no public market discount) as the **key value driver** — ICG's CLEC operation — continues to exhibit strong fundamental momentum. As a result, we have made no material change to our '07 forecast from which 90% of our \$42.10 year discounted cash flow (DCF) private market value is derived. In addition, we point out that although the underperforming divisions represented 41% of rev. in the quarter, NETCOM is expected to regain momentum by 4Q and network services is a non-core business unit, whose importance should diminish over time (falling to 7% of rev. by '00 and then only 4% of rev. by '07).

Revenue: Driven by 66% sqt'l growth in switched local services rev., CLEC rev. (comprised of special access, switched local services and switched termination) was \$58.5MM, 8% above our est. of \$54.1MM, up 23% sqt'ly and 91% y/y. However, due to lower than anticipated rev. from network service (a non-core division which performs telecom network wiring & maintenance functions) and NETCOM, total reported 1Q rev. was \$125.7MM, 4% below our ests., a 61% sqt'l increase and up 99% y/y.

Components of CLEC rev. include: a) switched local services rev. of \$28.2MM, (as noted above) up 66% sqt'ly and 12% higher than our est. of \$25.1MM. A portion of the improvement came from ICG's rev. per line, up 8% from \$53 to \$57 per line vs. our forecast of \$52, fueled by LD rev. obtained from the CGB acquisition; b) switched terminating access rev. of \$14.2MM, 7% lower than 4Q due to ICG's strategic decision to move away from this low margin business. However, 1Q switched terminating access rev. was 9% higher than our est. of \$13MM, as the runoff of rev. is occurring more slowly than we anticipated; and, c) special access rev. of \$16.1MM, in line with our est., up 4% sqt'ly and 33% y/y.

As pre-released on 4/20, NETCOM rev. was \$40.5MM, flat vs. 4Q and 6% below our \$43.0MM forecast. NETCOM's new sales initiatives (i.e. cross sales and

initiation of new sales channels) have been developing slower than we had expected and therefore, we do not expect NETCOM to hit double digit sqt'l rev. growth until 4Q. Enhanced services (Zycom) rev. was \$6.3MM, 16% lower than our est. of \$7.5MM, down both 7% sqt'ly and 17% y/y. Other total rev. components included: network services rev. of \$11.4MM, 38% lower than expected, down 27% sqt'ly & 37% y/y, due to seasonality.

Net Local Access Lines: ICG reported 186,156 net access lines in service at quarter-end, a sqt'l increase of 32% over 4Q's 141,035. The 45,100 net lines added represent a 6% growth in net line additions vs. the 42,499 internally generated (i.e. excluding the impact from CBG acquisition) 4Q line adds and bodes well for ICG to meet our forecast of 341,000 lines by year-end 1998. Of the total lines in service, we est. 47% were served via total service resale, 24% via unbundled network elements, and 29% via ICG owned switches and last mile loop.

EBITDA: EBITDA loss in 1Q was \$25.7MM, a 10% improvement over the \$28.4MM loss in 4Q and in line with our est. of \$25.9MM, even with the lower than expected total rev. numbers. The improvement in margin was mainly due to SG&A which improved from 49.9% of rev. in 4Q97 to 46% in 1Q. We maintain our est. of EBITDA positive for 4Q98.

Network Buildout Update: Network route miles at quarter end were 3,194 compared to 3,043 for 4Q, up 5% sqt'ly and 29% y/y. Total buildings connected to ICG's local network and switches (either through owned or leased facilities) increased by an impressive 69% sqt'ly with 3,931 connected at quarter-end.

Estimate Changes: As shown in Table 1 below, we made the following est. changes:

Table 1: Revised ICG Forecast

(\$ in millions)	1998E			1999E		
	Prior	New Est.	% Chng.	Prior	New Est.	% Chng.
CLEC	279.7	288.7	3%	523.0	525.0	--
NETCOM	196.7	177.3	-10%	245.9	221.7	-10%
Other*	<u>145.0</u>	<u>134.6</u>	<u>-7%</u>	<u>157.5</u>	<u>149.1</u>	<u>-5%</u>
T'tl Revenue	621.4	600.6	-3%	926.4	895.8	-3%
EBITDA	(17.0)	(31.8)	-87%	133.9	126.1	-6%

*Note: Includes network services, Zycom & satellite services (sale of division pending)

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Opinion Key (A-B-C): Investment Risk Rating (X): A - Low, B - Average, C - Above Average, D - High. Appreciation Potential Rating (a, b, c): a - 0-12 mo., b - Long Term - >1 yr.; 1 - Buy, 2 - Accumulate, 3 - Neutral, 4 - Reduce, 5 - Sell, 6 - No Rating. Income Rating (c): 7 - Same Higher, 8 - Same Lower, 9 - No Cash Dividend.

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5 May 1998

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Intermedia Communications Inc

**1Q Results: Revenues Strong,
Funding For Growth Continues**

BUY*

Reason for Report: 1Q Results Reported

**Long Term
BUY**

Price: **\$73 3/8**

12 Month Price Objective: **\$105**

Estimates (Dec)	1997A	1998E	1999E
EPS:	d\$10.83	d\$16.26	d\$13.44
P/E:	NM	NM	NM
EPS Change (YoY):		NM	NM
Consensus EPS:		d\$12.25	d\$10.80
(First Call: 28-Apr-98)			
Q1 EPS (Mar):	d\$1.89	d\$4.16	
Cash Flow/Share:	d\$7.64	d\$8.32	d\$2.48
Price/Cash Flow:	NM	NM	NM
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-1-1-9
Mkt Value / Shares Outstanding (mn):	\$1,239 / 17
Price/Book Ratio:	NM

Stock Data

52-Week Range:	\$91 1/4-\$19 3/4
Symbol / Exchange:	ICIX / OTC
Options:	Pacific
Institutional Ownership-Spectrum:	NA
Brokers Covering (First Call):	15

ML Industry Weightings & Ratings**

Strategy: Weighting Rel. to Mkt.:	
Income:	Overweight (07-Mar-95)
Growth:	Underweight (07-Mar-95)
Income & Growth:	Overweight (07-Mar-95)
Capital Appreciation:	Overweight (16-Jan-96)

Market Analysis: Technical Rating: Above Average (24-Dec-96)

*Intermediate term opinion last changed on 31-Mar-98.

**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.
For full investment opinion definitions, see footnotes.

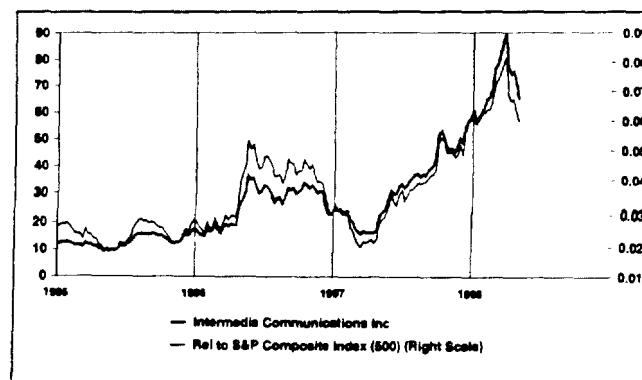
Investment Highlights:

- ICIX reported 1Q98 results with strong topline growth, but larger than anticipated costs related to new growth initiatives & delays in moving to lower cost long haul network resulted in higher than expected EBITDA loss.
- Management's decision to accelerate investment in systems to support key LT. growth initiatives — especially national data contracts with RBOCs — should begin to show attractive returns within the next few quarters.
- No change to 12 month price objective of \$105 or 43% upside. Reiterate Buy opinion.

Fundamental Highlights:

- 1Q revenue was \$136.8MM, 2% above our est., up 66% qtr'y & 212% y/y. Net of Shared Tech acq. which added \$45MM in qtr., revenue was up 11% qtr'y & over 2 fold y/y.
- 1Q EBITDA loss was \$9.8MM, more than double our \$4.6MM loss est. & flat with 4Q97's loss. Excluding \$8MM in "unusual" network operating expense items (network migration delays & unprofitable int'l LD traffic), 1Q EBITDA loss would have been \$1.8MM. We still expect positive EBITDA in 2Q.
- We maintain our full-year '98 revenue estimate of \$750MM but are lowering EBITDA by 26% from \$90MM to \$67MM. We are lowering full-year '99 revenue by 3% from \$1.2 billion to \$1.15 billion & EBITDA by 12% from \$211MM to \$186MM.

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

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RC#20112525

On April 29, ICIX reported 1Q results showing continued strong topline growth. However, reported EBITDA loss was larger than anticipated due to "unusual" expense items related to key growth initiatives and delay in migration to a new long haul network supplier which masked solid cost improvement in the quarter. We expect ICIX to reap ample returns from these investments in systems critical to support the numerous voice and data growth initiatives already underway.

- Revenue:** Reported rev. was \$136.8MM, 2% above our est. of \$133.8MM, a 66% seq'l increase and up 212% y/y. Net of rev. contribution from the Shared Tech acquisition which closed 3/10 (Shared Tech's 1Q results are included in full quarter), rev. was \$92MM, an 11% seq'l improvement and more than double 1Q97's \$43.9MM. Key growth drivers include: a) **Local Network Svcs.** with 1Q rev. of \$33.7MM, 38% above our est. of \$24.4MM, a 104% seq'l increase and up 6.5 fold y/y. Net of Shared Tech's \$13MM contribution, internal rev. was \$20.7MM, up 25% sequentially and 4 fold y/y; b) **Interexchange Svcs.** rev. of \$44.8MM, 1% higher than our est. of \$44.3MM, a 39% seq'l increase and up 76% y/y. Net of Shared Tech's \$10MM contribution, internal rev. was \$34.8MM, 8% higher than 4Q97 and up 36% y/y. Due to continuing low margins, ICIX announced that it would accelerate the phase out of its wholesale international long distance svcs. over the next 2 quarters, with the full effect of the approx. \$2MM monthly reduction hitting during 3Q98; and, c) **Data Svcs.** rev. (including DIGEX and enhanced data svcs. "EDS") was \$36.5MM, 7% below our est. of \$39.1MM, but a 15% seq'l increase and up 223% y/y. We est. DIGEX rev. was \$17.1MM, a 14% seq'l increase and 15% lower than our est. of \$20.1MM, while EDS rev. was \$19.4MM, a 15% seq'l increase and 2% higher than our est. of \$19.0MM.
- Access Lines:** At quarter-end, ICIX reported 220,587 local access lines in service, including 111,600 from Shared Tech. Net of Shared Tech's contribution of 3,800 access lines added during the quarter, ICIX's 27,600 access line additions were 11% lower than the 31,000 lines added during 4Q97. We attribute this slowdown to time required by ICIX's salespeople to train Shared Tech's sales force. We est. 1Q line mix to be 40% total service resale, 40% on-net, and 20% via unbundled network elements.
- EBITDA:** 1Q EBITDA loss was \$9.8MM, more than double our est. of \$4.6MM and flat with \$9.9MM in losses for 4Q97, but an improvement of 22% y/y. The 1Q EBITDA loss was higher than anticipated due to: a) \$6MM for delays in transitioning leased long haul network to Williams; b) \$3MM for incremental

provisioning and customer service support costs required to serve US WEST and possibly other RBOCs (we think announcements of similar national data deals with other RBOCs are likely) as its preferred provider of out-of-region data svcs.; c) \$2MM in negative gross margin impact from ICIX's soon to be phased out wholesale international LD business; and d) \$2MM in SG&A costs related to upgrading and increasing capacity on ICIX's line provisioning and billing systems. Table 1 below details our ests. of the quarterly impacts these growth initiative expenditures will have on EBITDA. For 1Q, excluding the spending on company systems and headcount required for growth, we est. ICIX would have reported an EBITDA loss of \$1.8MM vs. our forecast of \$4.6MM. We continue to expect positive EBITDA beginning in 2Q, and estimate that by 4Q ICIX will have an annualized EBITDA run rate approaching \$150MM, implying an EBITDA multiple of 24x at current prices for a company with 5-year EBITDA CAGR of 64%.

Table 1: EBITDA Impact From Expenses Related To Growth Initiatives

(\$ millions)	1Q98E	2Q98E	3Q98E	4Q98E	1998E
Network Migration Delay	6	3	1	0	10
Wholesale International LD	2	1	0	0	3
Total "Unusual" Expenses	8	4	1	0	13
G&A For RBOC Data Contract	3	3	3	3	12
Systems Capacity Upgrade	2	2	2	2	8
EBITDA Impact From Growth	13	9	6	5	33

Source: Merrill Lynch estimates

- Cap Exp:** 1Q cap exp was \$76MM, 15% lower than our est. of \$90MM, including approximately \$4MM for expenses related to Shared Tech. We are maintaining our full-year '98 est. of \$375MM and lowering full-year '99 to \$375MM from \$475MM.
- Estimate Changes:** We maintain our full-year '98 rev. est. of \$750MM. We are lowering our full year '98 EBITDA forecast from \$90MM to \$67MM (9% margin) and our full-year '99 forecasts with revenue est. reduced by 3% from \$1.2Bn to \$1.15Bn and EBITDA est. reduced by 12% from \$211MM to \$186MM.
- Conclusion:** We maintain our 12 month price objective of \$105 based on our 10-year DCF model. Our price objective is based on the average between our year-end '98 and year-end '99 private market values using a 15% discount rate, 9.5x terminal EBITDA multiple, and no public to private discount. Although we lowered our near term EBITDA forecasts, the impact to private market value was offset by a \$100MM reduction in cap exp for '99.

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13 May 1998

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RCN Corp.

**1Q Results: Strong Progress
Across The Board**

ACCUMULATE*

Reason for Report: 1Q Results Reported

**Long Term
BUY**

Price: \$23 1/2

Estimates (Dec)	1997A	1998E	1999E
EPS:	d\$0.72	d\$2.94	\$3.77
P/E:	NM	NM	NM
EPS Change (YoY):		NM	NM
Consensus EPS:		d\$2.16	d\$3.08
(First Call: 24-Apr-98)			
Q1 EPS (Mar):	NA	d\$0.99	
Cash Flow/Share:	\$0.26	d\$1.88	d\$2.22
Price/Cash Flow:	98.1x	NM	NM
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion:	D-2-1-9
Mkt. Value / Shares Outstanding (mn):	\$1,402.5 / 55
Book Value/Share (-97):	\$6.73
Price/Book Ratio:	3.8x
LT Liability % of Capital:	70.0%

Stock Data

52-Week Range:	\$30 5/8-\$12 1/2
Symbol / Exchange:	RCNC / OTC
Options:	Pacific
Institutional Ownership-Spectrum:	25.4%
Brokers Covering (First Call):	6

ML Industry Weightings & Ratings**

Strategy: Weighting Rel. to Mkt.:		
Income:	Overweight	(07-Mar-95)
Growth:	Underweight	(07-Mar-95)
Income & Growth:	Overweight	(07-Mar-95)
Capital Appreciation:	Overweight	(16-Jan-96)

Market Analysis: Technical Rating: Above Average (24-Dec-96)

*Intermediate term opinion last changed on 09-Feb-98.

**The views expressed are those of the macro department and do not necessarily coincide with those of the Fundamental analyst.

For full investment opinion definitions, see footnotes.

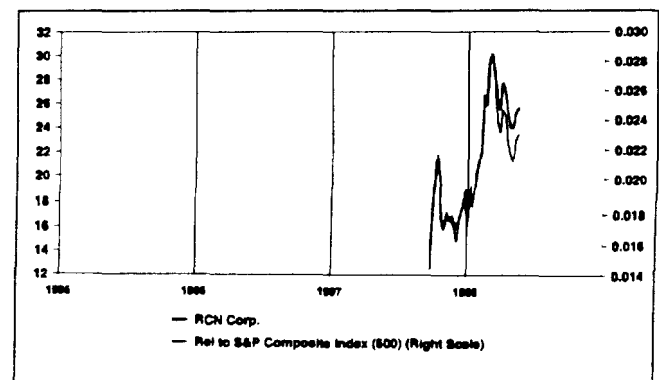
Investment Highlights:

- On May 12, RCN Corp. reported 1Q results showing strong fundamental improvement across the board. Solid topline improvement was driven by strong sqtl. growth in customer connections (i.e. voice, video and/or data subscriptions) & sqtl. improvement in monthly rev. per customer connection.
- We maintain our 12-18 month price objective of \$35, 49% upside, & our intermediate term Buy & long term Accumulate opinions.

Fundamental Highlights:

- 1Q corporate revenue was \$43.0MM, 1% higher than our estimate of \$42.4MM, up 4% sqt'ly & 45% y/y. Internal rev., net of data rev. acquired from the Erol's & Ultraset deals grew 5% sqt'ly & 26% y/y.
- 1Q EBITDA loss was \$9.6MM, 17% better than our est. loss of \$11.6MM & a 13% widening vs. 4Q.
- We maintain our full-year 1998 rev. est. of \$216MM & EBITDA loss est. of \$37MM.
- RCN's network buildout is on schedule with 63,386 homes passed by its advanced fiber network by quarter-end, 6% higher than our est. of 60,000. On-net customer connections at end of 1Q were 20,339, approximately 5% higher than our est. of 19,300, driven by 12% higher than est. subscription to voice svcs. RCN's penetration rate of homes passed is on track with our ests. As of 1Q, approx. 16% of total homes passed have subscribed to an average of 2 on-net svcs. (voice, video and/or data).

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

437200/437197/437100/437000

RCN#20113330

On May 12, RCN Corp. reported 1Q results showing strong fundamental improvement across the board. Solid topline improvement was driven by strong sqtl. growth in customer connections (i.e. voice, video or data subscriptions) and sqtl. improvement in monthly rev. per customer connection. During 1Q, RCN continued its rapid network development, beating our forecast of 60,000 homes passed by its advanced fiber network by quarter-end. 1Q Highlights were as follows:

1. **Revenue:** RCN restated its rev. into the following 3 categories: voice (resale and advanced fiber local and LD svcs.); video (advanced fiber, wireless, and traditional hybrid fiber coaxial cable svcs.); data (high speed internet svcs.); and other (dial-up internet and commercial svcs.).

1Q corporate rev. was \$43.0MM, 1% higher than our estimate of \$42.4MM, up 21% sqt'ly and 45% y/y. Internal rev., net of data rev. acquired from the Erol's and UltraNet deals, grew 5% sqt'ly and 26% y/y. Voice rev. was \$3.5MM, up 64% sqt'ly and over 8 fold y/y. Video rev. was \$26.7MM, up 1% sqt'ly and 9% y/y. Data rev. of \$5.7MM was almost entirely from 1 month of internet rev. from the Erol's and UltraNet acquisitions which closed on 2/24 and 3/2, respectively. Other rev. was \$7.1MM, up 4% sqt'ly and 52% y/y.

1Q monthly rev. per on-net connection showed sqtl. improvement with voice (local and LD) in the high \$60's up over 25% vs. the low \$50's in 4Q; video in the low \$30's up over 20% vs. the high \$20's in 4Q; and data of \$18-19, in line with 4Q.

We maintain our full-year 1998 and 1999 rev. estimates of \$215.9MM and \$337.0MM, respectively.

2. **EBITDA:** 1Q EBITDA loss was \$9.6MM, 17% better than our forecasted loss of \$11.6MM and a 13% widening vs. 4Q. 1Q EBITDA loss was \$2MM lower than anticipated due to timing issues regarding payment of expenses related to local network development. As we anticipate the \$2MM in expense will be incurred during the next 2 quarters, we maintain our full year 1998 and 1999 EBITDA loss ests. of \$35.7MM & \$3.2MM, respectively.

3. **Network Development & Unit Growth:** RCN's network buildout is on schedule with a reported 63,386 homes passed by its advanced fiber network by quarter-end, 6% higher than our estimate of 60,000.

The company is also restating its service connection count into two categories, advanced fiber or "on-net" and other or "off-net". Within these two categories, the svcs. are further separated into voice, video or data subcategories. As shown in Table 1 below, on-net customer connections of 20,339 were approximately 5% higher than our estimate of 19,300, driven by 12% higher than est. subscription to voice svcs. In addition, RCN is right in line with our

forecast regarding the penetration of sales into homes passed by its advanced fiber network. As shown in row O in Table 1 below, as of 1Q, approx. 16% of total homes passed are subscribing to an average of 2 on-net svcs. (voice, video and/or data).

Table 1: 1Q Connections & Penetration

		Our Est.	Actual	% Variance
A	<u>Homes Passed</u>	60,000	63,386	5.6%
	<u>On-Net</u>			
B	Voice	4,000	4,473	11.8%
C	Video	15,000	15,599	4.0%
D	Data	300	267	-11.0%
E (sum B:D)	Total On-Net	19,300	20,339	5.4%
	<u>Off-Net</u>			
F	Voice	40,000	40,447	1.1%
G	Video	225,000	227,558	1.1%
H	Data	370,000	370,271	0.1%
I (sum F:H)	Total Off-Net	635,000	638,276	0.5%
J (E+I)	Total Service Connections	654,300	658,615	0.7%
	<u>Penetration Of Homes Passed</u>			
K (B/A)	Voice	6.7%	7.1%	
L (C/A)	Video	25.0%	24.6%	
M (D/A)	Data	0.5%	0.4%	
N	Services Per Customer	2.0	2.0	
O (E/N/A)	Total On-net	16.1%	16.0%	

Source: Merrill Lynch estimates and company reports.

Conclusion - We maintain our intermediate term Accumulate and long term Buy opinion & our 12-18 month price objective of \$35, 49% upside. Our price objective is based on a sum of the parts valuation including: a) our

10-yr DCF model for RCN Telecom, using a 15% discount rate, 10.0x terminal EBITDA multiple, no public to private discount and a 20% discount to reflect minority ownership in RCN Telecom by its partners; b) 11.0x '99 EBITDA of \$41.5MM for the indep. cable properties; and; c) 11.0x '99 EBITDA of \$13MM (adjusted to account for 40% ownership) for Megacable, the Mexico CLEC venture.

Merrill Lynch is currently acting as a financial advisor and has rendered a fairness opinion to RCN Corporation in connection with its proposed acquisition of Erol's, which was announced on January 21, 1998. RCN Corporation has agreed to pay a fee to Merrill Lynch for its financial advisory services, a significant portion of which is contingent upon the consummation of the proposed transaction.

This research report is not intended to (1) provide voting advice, (2) serve as an endorsement of the proposed transaction, or (3) result in the procurement, withholding, or revocation of a proxy.

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14 May 1998

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Teligent Inc.

**1Q Report: Network Deployment
Moving Faster Than Expected**

ACCUMULATE*

Reason for Report: 1Q98 Results Reported

**Long Term
BUY**

Price: \$30

Estimates (Dec)	1997A	1998E	1999E
EPS:	d\$2.94	d\$3.47	d\$3.49
P/E:	NM	NM	NM
EPS Change (YoY):		NM	NM
Consensus EPS:		d\$3.55	d\$4.25
(First Call: 07-May-98)			
Cash Flow/Share:	d\$2.83	d\$3.29	d\$3.23
Price/Cash Flow:	NM	NM	NM
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion: D-2-1-9
Mkt. Value / Shares Outstanding (mn): \$1,586.3 / 54
Price/Book Ratio: NM
LT Liability % of Capital: 57.0%

Stock Data

52-Week Range: \$35 3/8-\$22 1/4
Symbol / Exchange: TGNT / OTC
Options: None
Institutional Ownership-Spectrum: 20.9%
Brokers Covering (First Call): 5

ML Industry Weightings & Ratings**

Strategy: Weighting Rel. to Mkt.:
Income: Overweight (07-Mar-95)
Growth: Underweight (07-Mar-95)
Income & Growth: Overweight (07-Mar-95)
Capital Appreciation: Overweight (16-Jan-96)
Market Analysis: Technical Rating: Above Average (24-Dec-96)

*Intermediate term opinion last changed on 18-Dec-97.

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For full investment opinion definitions, see footnotes.

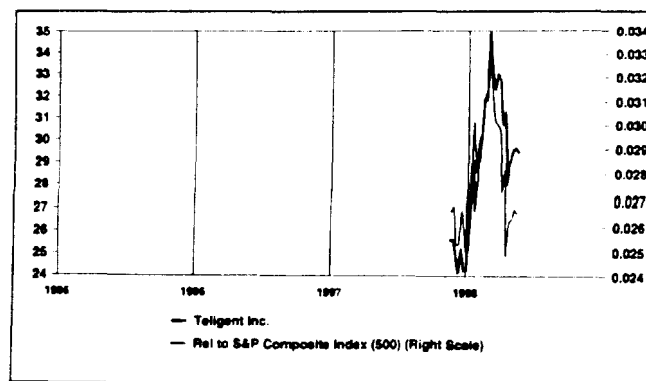
Investment Highlights:

- 1Q report indicates that network deployment is progressing faster than expected.
- We maintain our intermediate term Accumulate and long term Buy opinion.
- Our 12-18 month price objective remains \$37, 23% upside, based on our 10 year discounted cash flow (DCF) model, a 15% discount rate and 9.0 multiple on terminal year EBITDA, and no public market discount.

Fundamental Highlights:

- Management expressed confidence that they may exceed their previously stated goal of having 10 commercial markets by year-end 1998, thereby accelerating the deployment of the 20 new markets planned for 1999.
- Teligent installed 7 DMS 500 local/long distance switches and has an additional 6 on order for installation later in the year.
- During 1Q, Teligent signed a 3 1/2 year resale agreement with Frontier for long distance services and a 2 year resale agreement with Concentric for internet access and data networking services.

Stock Performance



Merrill Lynch & Co.
Global Securities Research & Economics Group
Global Fundamental Equity Research Department

RC#10113420

Teligent's 1Q Report & Analyst Call Reaffirms Our Confidence In Its Network Deployment Schedule. Reiterate Accumulate Opinion & \$37 12-18 Month Price Objective, Or 23% Upside.

After the market close on May 12, Teligent released 1Q results and hosted a call with analysts for the purpose of providing an update on activities related to the commercial rollout of the company's wireless CLEC (competitive local exchange carrier) services. The most noteworthy announcement was the company's assertion that they may exceed their goal of having 10 commercial markets in service by year-end 1998. To this end, management stated that "with teams already deployed in 20 markets, we have the opportunity to accelerate the launch of a number of markets originally scheduled for 1999, allowing us to exceed our goal of introducing Teligent service in 10 markets this year." Additional key highlights of the quarter and the analyst call were as follows.

1. Construction/market development update: During 1Q, Teligent installed DMS 500 combination local/long distance switches in Dallas, Denver, Houston, Los Angeles, Orlando, San Antonio and Washington, D.C. By year-end we expect Teligent to install switches in Chicago, San Francisco, Atlanta, New York, Philadelphia, and Boston. These switch installs constitute the most time consuming requirement to provide commercial telephone service within a market, and we believe this schedule will allow management to accelerate the launch of markets originally scheduled for rollout of commercial service in 1999.

2. Los Angeles Network: Teligent has beta customers up and running on its fixed wireless point-to-multipoint network in Los Angeles. Currently this network is comprised of 3 hub sites and 20 customer buildings. Teligent is utilizing the Los Angeles network to streamline its process and procedures for network deployment, customer installation and support, and intends to use it as a model for the rest of the country.

3. Long Distance & Internet Resale Contracts: During 1Q, Teligent signed a 3 1/2 year resale contract with Frontier which will provide it access to Frontier's long distance products including domestic and international LD, calling cards, and conference calling. Teligent also signed a 2 year resale contract with Concentric which will allow it access to Concentric's nationwide ATM network and the ability to resell dedicated internet access and web hosting services.

4. Staffing Up: As of the analyst call (May 12), Teligent had 675 employees with approximately 450 of those employees added during the first 4 months of 1998, well on its way to its headcount goal of 1,100 to 1,200 by year-end 1998. The company stated that approximately 30% (about 200) of the current employees are in sales and marketing positions.

5. 1Q98 Financial Results: Teligent reported quarterly revenue of \$100,000 from internet access and data services provided over point-to-point wireless links in support of license perfection activities. EBITDA loss was \$26.5MM with cost goods of \$7.4MM and SG&A of \$19.2MM. Reported net loss for the quarter was \$38.6MM which included \$6.6MM in non-cash, stock based compensation charges.

6. Cap Exp: During 1Q, Teligent's cap exp was \$51MM. Until we know the extent of Teligent's acceleration of its city rollout, we maintain our full-year 1998 estimate of \$170MM. However, this estimate may prove to be conservative dependent on the final number of cities in commercial service by year-end 1998.

7. Financing Activities: During 1Q, Teligent raised an additional \$250MM in Senior Discount Notes due 2008, bringing its available funding to \$1.6B (comprised of \$820MM in cash and \$780MM of vendor financing) at 1Q. The company stated that these funds will be sufficient to fund capital requirements through 2000.

Conclusion: Teligent's commercial service rollout appears to be running ahead of street expectations with more than 10 cities now likely to be in commercial operation by year-end 1998. We are extremely encouraged by this announcement as it reaffirms our confidence in Teligent's network deployment schedule and thus, we reiterate both our intermediate term Accumulate and long term Buy opinions as well as our \$37 12-18 month price objective. Our price objective is based on our 10-year discounted cash flow (DCF) model, a 15% discount rate, a 9.0x multiple on terminal year EBITDA, and no public market discount.

[TIGHT] MUPF&S was a manager of the most recent public offering of securities of the company within the last three years.

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Opinion Key (X=only): Investment Plan Rating(0): A - Low; B - Average; C - Above Average; D - High; Appraisal Potential Rating (at Int. Term - 0-12 mo.; Lt Long Term - >1 yr): 1 - Buy; 2 - Accumulate; 3 - Neutral; 4 - Reduce; 5 - Sell; 6 - No Rating; Income Rating(c) 7 - Same/Higher; 8 - Same/Lower; 9 - No Cash Dividend.

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13 May 1998

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USN Communications Inc

**Solid 1Q: Results In Line But Slightly
Lowering 1998 Estimates**

ACCUMULATE*

Reason for Report: 1Q Results Reported

**Long Term
BUY**

Price: **\$15 3/4**

Estimates (Dec)	1997A	1998E	1999E
EPS	d\$15.55	d\$8.81	d\$4.61
P/E	NM	NM	NM
EPS Change (YoY):		NM	NM
Consensus EPS:		d\$8.48	d\$4.19
(First Call: 04-May-98)			
Q2 EPS (Jun):	NA	d\$1.55	
Cash Flow/Share:	d\$15.67	d\$5.47	-
Price/Cash Flow:	NM	NM	NM
Dividend Rate:	Nil	Nil	Nil
Dividend Yield:	Nil	Nil	Nil

Opinion & Financial Data

Investment Opinion: D-2-1-9
Mkt. Value / Shares Outstanding (mn): \$442.5 / 30
Book Value/Share (-97): d\$1.94
Price/Book Ratio: NM

Stock Data

52-Week Range: \$23-\$13 3/4
Symbol / Exchange: USNC / OTC
Options: None
Institutional Ownership-Spectrum: NA
Brokers Covering (First Call): 2

ML Industry Weightings & Ratings**

Strategy: Weighting Rel. to Mkt.:
Income: Overweight (07-Mar-95)
Growth: Underweight (07-Mar-95)
Income & Growth: Overweight (07-Mar-95)
Capital Appreciation: Overweight (16-Jan-96)

Market Analysis: Technical Rating: Above Average (24-Dec-96)

*Intermediate term opinion last changed on 12-Feb-98.

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For full investment opinion definitions, see footnotes.

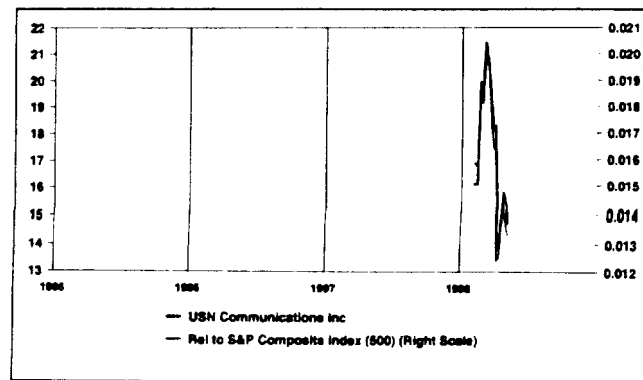
Investment Highlights:

- On May 7, USN reported 1Q results with rev. & EBITDA in line with our ests. The solid topline was led by strong access line growth & continued improvement in revenue per line.
- We maintain our \$24 price objective, 52% upside, based on our 10-year DCF model assuming a 15% discount rate & 9x terminal year EBITDA. We maintain our intermediate term Accumulate opinion.

Fundamental Highlights:

- 1Q rev. was \$32.4MM, in line with our est., up 60% sqt'ly & over 8 fold y/y. Topline growth was driven by direct sales rev. of \$27.5MM, up 36% sqt'ly & over 7 fold y/y. Net of acquired revenue from Connecticut Telephone, core USN revenue was \$27.8MM, up 38% sqt'ly. Average monthly rev. per line was \$49 up 4% sqt'ly over \$47 in 4Q.
- 1Q EBITDA loss was \$36.5MM, in line with our est. of \$36MM. Strong SG&A cost controls offset a lower than expected gross margin.
- As previously reported, USN installed 54,000 net local access lines during 1Q, the 2nd highest number of local access lines of the publicly traded CLECs.
- Notwithstanding solid 1Q results, we are lowering our full-year 1998 rev. forecast by 3% from \$310.5MM to \$300.6 due to slower than expected ramp up of telemarketing. In addition, we are slightly increasing full year 1998 EBITDA loss est. from \$123MM to \$124MM. We expect 2Q EBITDA loss to be flat with 1Q & forecast improvement during the final 2Q's of 1998.

Stock Performance



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Global Fundamental Equity Research Department

435200/435197/435100/435000

RC#20113327

On May 7, USN Communications (USN) reported 1Q results with revenues and EBITDA in line with our expectations. Topline growth was driven by strong sequential local access line adds and a sequential improvement in revenue per access line. In addition, strong SG&A cost controls offset a lower than expected gross margin.

Company Description: USN is a competitive local exchange carrier (CLEC) that offers telecom services to small and medium sized business customers throughout Bell Atlantic and Ameritech regions through total service resale contracts. During 1Q, USN maintained its position as having installed the 2nd highest (next to the MFS subsidiary of WorldCom) number of net local access lines vs. the rest of the CLEC industry. 1Q highlights are detailed below:

1. **Revenues:** 1Q total corporate revenue was \$32.4MM, in line with our estimate, up 60% sequentially and 8 fold y/y. Direct sales revenue was \$27.5MM, 1% lower than our estimate of \$27.9MM, up 36% sequentially and 7 fold y/y. Although we were not expecting any enhanced service revenue during 1Q, initial sales efforts resulted in revenue of approx. \$0.3MM. Net of acquired revenue from Connecticut Tel., core USN revenue of \$27.8MM was a 38% sequential improvement over 4Q. At \$4.6MM, Connecticut Tel. revenue was in line with our estimate.

As previously reported in our 4/13 note, there was an \$880,000 impact on 1Q revenue from one-time customer discounts for problems associated with migrating to a new billing system. Net of this impact, the average revenue per line was approximately \$49, a 4% increase over the average of \$47 for 4Q. We maintain our estimate of \$53 average revenue per access line by year-end 1998.

2. **EBITDA:** 1Q EBITDA loss was \$36.5MM, in line with our estimate, a 22% widening of loss from the \$30MM in loss reported for 4Q97. USN's gross margin of 17.8% was a sequential improvement of 340 basis points, but lower than our estimate of 27%. We have reallocated some expenses into SG&A from COGS, and anticipate a 2Q gross margin of 20.8% (300 basis point sequential improvement). USN's SG&A of \$42.3MM was 6% lower than our estimate, decreasing as a percentage of revenue by over 20% vs. 4Q.

3. **Net Access Line Additions:** As reported on 4/13, USN installed approx. 54,000 incremental net access lines during 1Q ending the quarter with 226,000 lines installed. Although flat vs. 4Q97 adds, USN installed the second

highest number of access lines of the publicly traded CLECs. We forecast USN will add an incremental 64,000 access lines during 2Q and will reach approx. 540,000 access lines by year-end 1998. While this is 4% below our prior estimate of 560,000, any effect on revenue is offset by better than anticipated sales of enhanced services.

As we reported in our 4/13 note, during 1Q USN's access line churn was approximately 2% per month, higher than our forecasted 1.5% per month, due to customer loss stemming from the billing systems issues mentioned above. We expect churn to return to approx. 1.5% during future quarters.

4. **Cap Exp:** 1Q cap exp was \$5.4MM, in line with our estimate of \$5.0MM. We maintain our forecast of \$20.0MM for full-year 1998.

5. **Geographic Expansion:** USN began marketing in four new states during 1Q: Indiana, Wisconsin, New Hampshire and Rhode Island. In addition, USN installed an initial salesforce in the Bell Atlantic South (Bell Atlantic states prior to the merger with NYNEX) territory and is currently beta testing its provisioning systems in Maryland. Revenue from sales within this new territory should begin to have a noticeable effect by 3Q. In addition, USN has also begun exploring options within SBC's territory through a resale agreement with a large unidentified CLEC in Texas. The company announced that they are currently beta testing the systems of that CLEC.

6. **Estimate Change:** We are lowering our full-year 1998 revenue estimate by 3% from \$310.5MM to \$300.6MM due to the slower than expected ramp up of telemarketing sales. As reported on 4/13, USN now has 90 telemarketing "chairs" in service and we anticipate that as the telemarketers are trained and productivity increases the revenue run rate will be sufficient to meet our 1999 forecasts. In addition, we are slightly increasing our forecasted EBITDA loss for full-year 1998 from \$123MM to \$124MM. We forecast 2Q EBITDA loss of \$36.7MM, virtually flat vs. 1Q and anticipate that final two quarters of the year will show sequential improvement. We maintain our 1999 and outer year revenue and EBITDA forecasts.

Conclusion: We maintain our \$24 price objective based on our 10-year discounted cash flow (DCF) model assuming a 15% discount rate, a 9 multiple on terminal year EBITDA, implying a 4.9% growth rate of perpetual free cash flow. We maintain our intermediate term Accumulate and long term Buy opinion.

Table 1: USN Communications Detailed Financial Forecast

	1997A	1Q98A	2Q98E	3Q98E	4Q98E	1998E	1999E	2000E	2001E	2002E	2003E	2004E	2005E	2006E	2007E
Revenues															
Direct Sales	47.2	27.5	39.9	58.6	89.7	215.6	392.3	502.1	603.3	690.5	776.1	861.1	942.9	1,024.7	1,107.5
Telemarketing	-	-	2.0	8.0	13.0	23.0	98.8	200.3	269.9	315.5	369.4	423.5	477.9	532.5	587.6
Agents	-	-	-	-	-	-	7.6	21.3	32.8	42.9	53.1	63.2	73.5	83.8	94.1
Enhanced	-	0.3	2.0	4.9	6.1	13.3	23.5	30.1	36.2	48.3	58.2	68.9	80.1	92.2	105.2
Core Revenues	47.2	27.8	43.9	71.5	108.8	251.9	522.2	753.8	942.1	1,097.1	1,256.8	1,416.7	1,574.4	1,733.2	1,894.4
CONTEL Revenues	-	4.6	12.8	14.7	16.6	48.6	63.2	76.7	87.7	98.7	110.3	122.5	136.2	151.3	168.3
Total Revenues	47.2	32.4	56.7	86.2	125.3	300.6	585.4	830.5	1,029.8	1,195.9	1,367.1	1,539.3	1,710.5	1,884.6	2,062.7
Expense															
Cost of Sales	41.3	26.6	44.9	65.5	91.5	228.5	417.2	571.5	700.3	802.7	917.9	1,033.8	1,133.2	1,248.4	1,366.3
Sales & Marketing	100.4	42.3	48.5	51.7	53.9	196.4	209.6	248.3	277.0	303.8	330.8	361.7	393.4	425.9	460.0
Depreciation/Amort.	3.5	2.2	1.2	1.4	2.1	6.9	10.0	14.2	18.6	19.7	22.1	23.2	24.4	25.6	30.4
Operating Profit	(97.9)	(38.7)	(37.9)	(32.5)	(22.1)	(131.2)	(51.4)	(3.5)	33.9	69.7	96.2	120.5	159.6	184.6	206.1
Interest Exp. net	11.9	5.5	9.6	12.1	14.5	41.7	59.3	53.1	41.4	30.0	18.3	2.0	-	-	-
Pretax Profit	(109.9)	(44.2)	(47.5)	(44.5)	(36.6)	(172.8)	(110.7)	(56.6)	(7.5)	39.7	77.9	118.5	159.6	184.6	206.1
Accumulated Pref'd Div.	2.2	0.6	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Profit (loss)	(112.1)	(44.8)	(47.5)	(44.5)	(36.6)	(173.4)	(110.7)	(56.6)	(7.5)	39.7	77.9	118.5	159.6	184.6	206.1
EPS	\$ (15.55)	\$ (3.12)	\$ (2.07)	\$ (1.88)	\$ (1.50)	\$ (8.56)	\$ (4.41)	\$ (2.19)	\$ (0.28)	\$ 1.45	\$ 2.75	\$ 4.07	\$ 5.32	\$ 5.97	\$ 6.47
Shares O/S	7.2	14.4	23.0	23.7	24.4	21.4	25.1	25.9	26.7	27.5	28.3	29.1	30.0	30.9	31.8
EBITDA	(94.4)	(36.5)	(36.7)	(31.0)	(20.1)	(124.3)	(41.4)	10.7	52.5	89.5	118.3	143.7	183.9	210.2	236.4
Cap Exp	15.0	5.4	5.0	5.0	5.0	20.0	21.0	22.1	23.2	24.3	25.5	26.8	28.1	29.5	31.0
Free Cash Flow	(111.7)	-	-	-	-	(120.2)	(62.7)	(11.8)	29.6	65.7	93.1	117.1	156.6	181.4	204.5
Access Lines (000s)	172	226	290	390	540	540	913	1,189	1,384	1,594	1,807	2,014	2,217	2,422	2,626
Margins															
Cost of Sales	87.4%	82.2%	79.2%	76.0%	73.0%	76.0%	71.3%	68.8%	68.0%	67.1%	67.1%	67.2%	66.2%	66.2%	66.2%
Sales & Marketing	212.7%	130.5%	85.5%	60.0%	43.0%	65.3%	35.8%	29.9%	26.9%	25.4%	24.2%	23.5%	23.0%	22.6%	22.3%
Depreciation/Amort.	7.4%	6.8%	2.1%	1.7%	1.6%	2.3%	1.7%	1.7%	1.8%	1.7%	1.6%	1.5%	1.4%	1.4%	1.5%
Interest Exp. net	25.2%	16.9%	15.6%	13.5%	11.4%	13.9%	10.1%	6.4%	4.0%	2.5%	1.3%	0.1%	0.0%	0.0%	0.0%
Net Profit (loss)	NM	NM	NM	NM	NM	NM	NM	NM	NM	3.3%	5.7%	7.7%	9.3%	9.8%	10.0%
Y/Y Change															
Core Revenues															
Direct Sales	NA	NM	NA	NA	343.8%	356.9%	81.9%	28.0%	20.2%	14.4%	12.4%	10.9%	9.5%	8.7%	8.1%
Telemarketing	NA	NM	NA	NA	NM	NM	329.5%	102.8%	34.7%	16.9%	17.1%	14.6%	12.8%	11.4%	10.3%
Agents	NA	NM	NA	NA	NM	NM	NA	181.0%	53.9%	30.9%	23.7%	19.2%	16.2%	14.0%	12.4%
Enhanced	NA	NM	NA	NA	NM	NM	77.0%	28.0%	20.2%	33.5%	20.4%	18.3%	16.3%	15.1%	14.1%
Core Revenues	NA	NM	NA	NA	438.4%	433.8%	107.3%	44.4%	25.0%	16.5%	14.5%	12.7%	11.1%	10.1%	9.3%
CONTEL Revenues	NA	NM	NA	NA	NM	NM	29.9%	21.4%	14.4%	12.5%	11.8%	11.1%	11.1%	11.2%	11.2%
Total Revenues	NA	NM	NA	NA	NM	NM	94.7%	41.9%	24.0%	16.1%	14.3%	12.6%	11.1%	10.2%	9.5%
Operating Profit	NA	NM	NA	NA	NM	NM	NM	NM	NM	105.6%	38.0%	25.3%	32.4%	15.7%	11.6%
Net Profit	NA	NM	NA	NA	NM	NM	NM	NM	NM	NM	96.1%	52.1%	34.6%	15.7%	11.6%
EPS	NA	NM	NA	NA	NM	NM	NM	NM	NM	NM	90.4%	47.7%	30.7%	12.3%	8.4%
EBITDA	NA	NM	NA	NA	NM	NM	NM	NM	NM	70.3%	32.3%	21.5%	28.0%	14.3%	12.5%

Source: Merrill Lynch estimates

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Appendix

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